

Meeting Summary

Second Balancing Service Charges Task Force

Meeting Number 3

Date: 25/02/2020 **Location:** Energy Networks Association, London

Start: 10:00 **End:** 16:00

Participants

Attendee	Attend/Regrets	Attendee	Attend/Regrets
Colm Murphy, Chair, National Grid ESO (CM)	Attend	Jane West, National Grid, Presenter (J.We)	Attend
Joseph Henry, Technical Secretary, National Grid ESO (JH)	Attend	George Moran, Centrica, Task Force Member (GM)	Attend
Eleanor Horn, National Grid ESO (EH)	Attend	Grace March, Sembcorp, Task Force Member (GMa.)	Attend
Joseph Underwood, Energy UK, Taskforce Member (JU)	Attend	Joshua Logan, Drax, Task Force Member (JL)	Regrets
Jon Wisdom, National Grid ESO, Task Force Member	Attend	Olaf Islei, Shell, Task Force Member (OI)	Attend
Keith Munday, Bryte Energy, Task Force Member (KM)	Regrets	Lisa Waters, Waters Wye Associates, Task Force Member (LW)	Attend
Jon Tindal, SSE, Task Force Member (JT)	Attend	Tom Edwards, Cornwall Insight, Task Force Member (TE)	Attend
Paul Jones, Uniper, Task Force Member (PJ)	Attend	James Kerr, Citizens Advice, Task Force Observer (HT)	Attend
Kayt Button, Ofgem, Task Force Member (KB)	Attend	Simon Cowdroy, RES, Task Force Member (SC)	Attend
George Douthwaite, Npower, Task Force Member (GD)	Attend	Tom Steward, Good Energy, Task Force Member (TS)	Attend
Andrew Rimmer (AR), Engie, Task Force Member	Attend	David Beaumont, Ofgem, Presenter (DB)	Attend
Andrew Ryan, Ofgem, Presenter (AR)	Attend	Attendee name	

Discussions

1. **Introductions, Actions Log and Apologies for Absence**
 - 1.1 Colm Murphy opened the meeting and welcomed the attendees to third meeting of the second Balancing Service Charges Task Force. All members attended, with the exception of Joshua Logan and Keith Munday. No alternates attended in their place. Andrew Ryan and David Beaumont from Ofgem attended, as did Jane West from National Grid, all of whom presented to the TF. All slides for the day can be found [here](#).
 - 1.2 Colm reviewed the actions log. An up to date actions log can be found [here](#). The vast majority of the analysis-based actions remain open due to further work or refinement being required, examples of which being Actions 7, 11 and 12. Likewise, some actions have remained open due to the fact that they are ongoing in nature, and will remain so for the course of the TF.
 - 1.3 In regards to Action 6, it was decided that the status would remain open at this point, as implementation approaches were to be explored further during the work of the TF in regards to suggested BSUoS methodologies. Kayt Button also advised that Actions 9 and 10 around contractual positions data should remain open, as she may have sourced some data which would be helpful.
 2. **Meeting 2 Recap**
 - 2.1 Eleanor Horn played back the outcomes of the second TF meeting to the room. The qualitative analysis undertaken for the second meeting was revisited, as the TF broadly agreed that the ESO often underestimated BSUoS cost. Eleanor also explained that GB generators are paying a significantly higher amount of balancing services charges when compared to their European counterparts in the Internal Energy Market (also looked at in the live CMP308 workgroup report) and noted that the TF believed that the work undertaken CMP250 on risk premia and funding could be tweaked and refined, using more current data, and provide useful evidence for any findings of this TF.
 - 2.2 TF members recognised that [CMP201](#), a CUSC modification which looked to remove BSUoS charges from Generators, was rejected by Ofgem, and that Ofgem stated in their [CMP201 decision letter](#) that a reason for the rejection was that Ofgem decided that there would be a short term cost to consumers, if the modification were to be implemented. Ofgem stated at the time that “the potential for increased competition is not sufficiently great to deliver the long term benefits for consumers that would outweigh short run costs¹”
 - 2.3 Some members expressed their view that this TF should recognise the analysis undertaken as part of CMP201 as Ofgem’s conclusion has not been disproven since the initial decision was made. It was recognised that it was important to look into the validity of these findings, especially in light of any changes in the spilt of who pays TNUoS. Some members highlighted that they thought that revisiting the analysis was not necessary at this juncture, however, it would need to be quantified what impact removing BSUoS from generators may have on the bills of end consumers.
There were discussions around how feasible conducting such analysis would be given the tight timescales the TF are currently operating to. Opinions in the room differed as to whether robust economic analysis was requisite, or whether the TF could approach this question on a principle driven basis. It was decided that the ESO should scope whether the analysis would be feasible from a time and cost perspective.
Action: ESO to ascertain feasibility of undertaking flow based modelling analysis and associated costs.
 - 2.4
 3. **Finance Updates – Ofgem and ESO**
 - 3.1 Andrew Ryan and David Beaumont from Ofgem attended the meeting in order to discuss links between work undertaken by the TF and the ESO’s price control (RIIO-T2). Ofgem recognised that since legal
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¹ Ofgem Decision Letter on CMP201, P9 - <https://www.nationalgrideso.com/document/6156/download>

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- 3.2 separation between National Grid and National Grid ESO, the ESO is asset light yet responsible for transacting £4bn of industry charges per annum.
It was highlighted that currently, credit arrangements around balancing services charges function well, but also highlighted that any changes to such arrangements could result in other risks premia being added by participants in the energy market.
 - 3.3 Ofgem explained that BSUoS has two components. The costs of balancing the system are set dynamically (£800m+), recovered half hour by half hour. Approximately £200m is the ESO's price control allowance which is not recovered dynamically ie they are set through the price control framework. All of these costs are recovered on an ex-post basis meaning that the ESO currently has very little exposure to any cashflow or capital risk.
 - 3.4 Ofgem currently favour a cost pass through funding model for the ESO, as opposed to a totex model, with costs being recovered without a sharing factor involved. Allowed revenue could be fixed in the January of the year prior, allowing the ESO to recover their price control allowance element more dynamically as this would allow the ESO to respond more quickly to market challenges and make improvements for consumers.
 - 3.5 Ofgem also noted that the ESO no longer has the asset backing of the Transmission Owner business meaning it is unable to take on significant risks to its balance sheet². This is being considered as part of the ESO's new price control. Ofgem advised the TF that conversations have occurred around TNUoS recovery risk and how this may not have to be carried by the ESO³.
It was further explained that there could be detrimental impacts on the ESO if they were asked to carry the risk of a fixed BSUoS charge, in terms of investor confidence, maintaining an investment grade credit rating, and potential process and system changes. It was noted that BSUoS risk would need to be mitigated through additional funding measures, which could have unintended consequences during the next price control, and that placing disproportionate risk on an asset light ESO, could require additional financing measures. – There is a risk that any larger financial exposure could distract the ESO from its core role and not allow it to identify opportunities for consumers and the market.
 - 3.6 Ofgem advised that there is no “K” correction factor in BSUoS, as currently stands, and stated that if the TF was to suggest a fixed volumetric charge, then Ofgem would have to look at the possibility of including a K Factor to address any under recovery.
 - 3.7 Some members of the TF asked whether fixing BSUoS could have implications on the domestic price cap. so could under recovery be recompensed to the suppliers. Ofgem said that they were aware of the interaction and are looking at existing contractual arrangements which may impact implementation of changes to BSUoS.
 - 3.8 Jane West from National Grid ESO agreed with Ofgem's views around legal separation and the implications this has on the ESO' RAV. Members of the Task Force questioned whether a ringfenced mechanism could be set up to negate this, making it easier for the ESO to bear BSUoS risk. Other Task Force members suggested that a reserve fund could be set up as part offsetting BSUoS on a fixed or volumetric basis. Jane also highlighted that there should be no assumption that NG Group could financially support NGESO given the system operation review
 - 3.9 The TF questioned whether BSUoS was becoming inherently more volatile because of the direction of other policy such as the Clean Energy Package which requires procurement of services closer to real time. The TF noted the issues and recognised they would need to consider them when assessing final options and outcomes.

4 Engagement

Feedback

- 4.1 Between meetings, the TF received feedback from a supplier and an interconnector in regards to the direction of travel the work of the TF was taking. The supplier noted the following:
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² The RAV of the ESO is approximately £250m.

³ Ofgem Consultation on TNUoS Revenue Collection Risk -

https://www.ofgem.gov.uk/system/files/docs/2019/12/tnuos_cashflow_timing_consultation_002.pdf

- Need for thorough analysis to ensure that no industry party is unfairly burdened by the changes or receives an unfair windfall.
- A cost reflective split between industry participants is key to market integrity. This should be calculated in a transparent and reflective manner
- It is not in consumer interest for unexpected and unfair industry costs to be imposed. This can materially impact customers profitability and could lead to an increase in customer insolvencies.
- Any proposed change to cost apportionment would need a considerable lead time, at least 3 years to account for contract durations in the non-domestic market.
- BSUoS cost impacts cannot be considered in isolation of other TCR changes.

4.2 The Task Force noted the concerns of the supplier and noted that they have already discussed some of the issues set out above. The Task Force will be considering implementation approaches further in its work to come and agreed that they would ensure the suppliers concerns were addressed.

4.3 The Task Force also received feedback from an interconnector that a large proportion of work had been focussed on interconnectors and they were concerned that a recommendation affecting interconnectors would be made. The TF agreed that the ESO should feedback that this was not the case and that the focus on interconnectors was to ensure that cross border trade effects were captured properly when assessing the impact on generators and suppliers in the GB market.

4.4 **Network Operation Assessment (NOA)**

Between meetings, Kayt Button had distributed information on what NOA can or cannot do in regards to BSUoS. Jon Wisdom talked the TF through this.

Engagement Plan

4.5 Jon advised that Citizen’s Advice would continue to be engaged throughout the duration of the TF and thanked James Kerr for attending today’s meeting. TF members were also thanked for their continuing attendance at various industry forums.

4.6 Caroline Bragg volunteered to present to Charging Futures Forum on the progress of the TF on 12 March 2020, and various Task Force members have been attending relevant industry forums in order to give updates. Caroline and Simon Cowdroy were thanked for volunteering to take part in the Meeting 3 podcast.

4.7 **Action: Caroline Bragg to present at Charging Futures Forum on 12 March 2020**

Eleanor Horn advised that she had begun to draft the report and hopes to have a copy with TF members to review ahead of the next meeting.

5.0 **Deliverable 1 and 2 – Options**

5.1 In the interim period between TF meetings, members were asked to consider different methodologies, focussing on who should pay Balancing Services Charges and how these charges should be set and billed.

5.2 A total of 15 options were put forward by TF members. Each option put forwards was also assessed against the principles of the Targeted Charging Review, namely fairness, practicality and proportionality, and reducing harmful distortions. The Task Force considered both deliverables 1 and 2 through this process. A matrix detailing these potential options will be made available [here](#).

5.3 Two key themes emerged in TF preferences in terms of the structure of the charge. One mirrored the TDR approach under the Targeted Charging Review⁴ whereas the second approach looked to charge on a volumetric basis but without a HH/Daily shape element.

Some models put forwards by the TF transfer BSUoS risk to the ESO. The TF acknowledged that this would need to be considered based on the feedback they heard from Ofgem and NGENO regulatory finance.

5.4 The majority of the TF were in agreement that some form of fixing BSUoS charges would be valued in industry and could result in less uncertainty in the charge which they felt would have benefits for industry and consumers. The TF asked the ESO to consider how forecasting could be considered over various timeframes and the risk that this may present.

Action: ESO to undertake BSUoS Volatility Analysis

⁴ https://www.ofgem.gov.uk/system/files/docs/2019/12/full_decision_doc_updated.pdf

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- 5.5 The TF also noted that it would be useful to have a solidified idea of what the best period for fixing would be from a supplier perspective. The suppliers on the TF were asked to undertake some analysis to help quantify this question.
- 5.6 **Action: Suppliers to undertake analysis on what the optimum fixing period for BSUs**
TF members also felt that it was important to consider ESO cashflow impacts under any potential solution, given the discussions held around financing held earlier in the meeting.
Action: ESO to undertake Cashflow Analysis for different options
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- 6.0 **AOB and Next Meeting**
- 6.1 The next meeting will be held on 11 March 2020 at the Energy Networks Association, 4 More London
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